



PUBLIC WORKS DEPARTMENT  
**WATER RESOURCES DIVISION**

# **WATER RATE DEVELOPMENT AND CUSTOMER CLASSES**

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Water Commission – April 20, 2017

# Outline

- Recommendation:
  - Hear an update on water rate development and customer classes; and,
  - Provide policy direction to staff for cost allocation between in-City and out-of-City customer classes.

# WATER RATE DEVELOPMENT UPDATE

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## Rate Study Consultant

- Bartle Wells Associates (BWA)
- Council approved contract on November 8, 2016
- Comprehensive review of water rates and capacity fees
- Three-year water supply outlook

## Schedule for Water Rate Adoption

- April: Rate development updates and policy direction on customer classes
- June: Introduce proposed rates & request authorization to mail Prop 218 notice
- June/July: Prop 218 noticing period
- August: Public hearing and adoption
- September: New rates begin to appear on bills

## Multi-year Rate Adoption and Fund Reserves

- Developing rates for Fiscal Years 2018, 2019, and 2020
- Assuming continued drought conditions through FY 19
- Preliminary estimates for revenue needs
  - FY 18 – 8% increase
    - *Maintain debt coverage compliance*
    - *Planned use of reserves*
  - FY 19 and FY 20 – 6% increases
    - *Stabilize reserves*

# CUSTOMER CLASSES

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# History of Out-of-City Rate Differential

- Source Documents
  - 1973 Revenue Requirement Study – Brown and Caldwell Consultants
  - 1995 Rate Study – Kennedy Jenks
  - 2013 Rate Study – Raftelis Financial Consultants
- Enacted around 1920
  - Gibraltar Dam financing costs
- Users Utility Tax
- Additional Infrastructure to serve out-of-City customers
  - Pump stations, miles of pipe, and reservoirs per customer
- Most recent Raftelis study determined cost increment to be 1.3x the applicable in-City rate



## Proposition 218

- “Right to Vote on Taxes” Act – 1996
- Rates must be proportional to the cost of service
- 45 day noticing requirement
- Public Hearing prior to adoption

## Council Authority

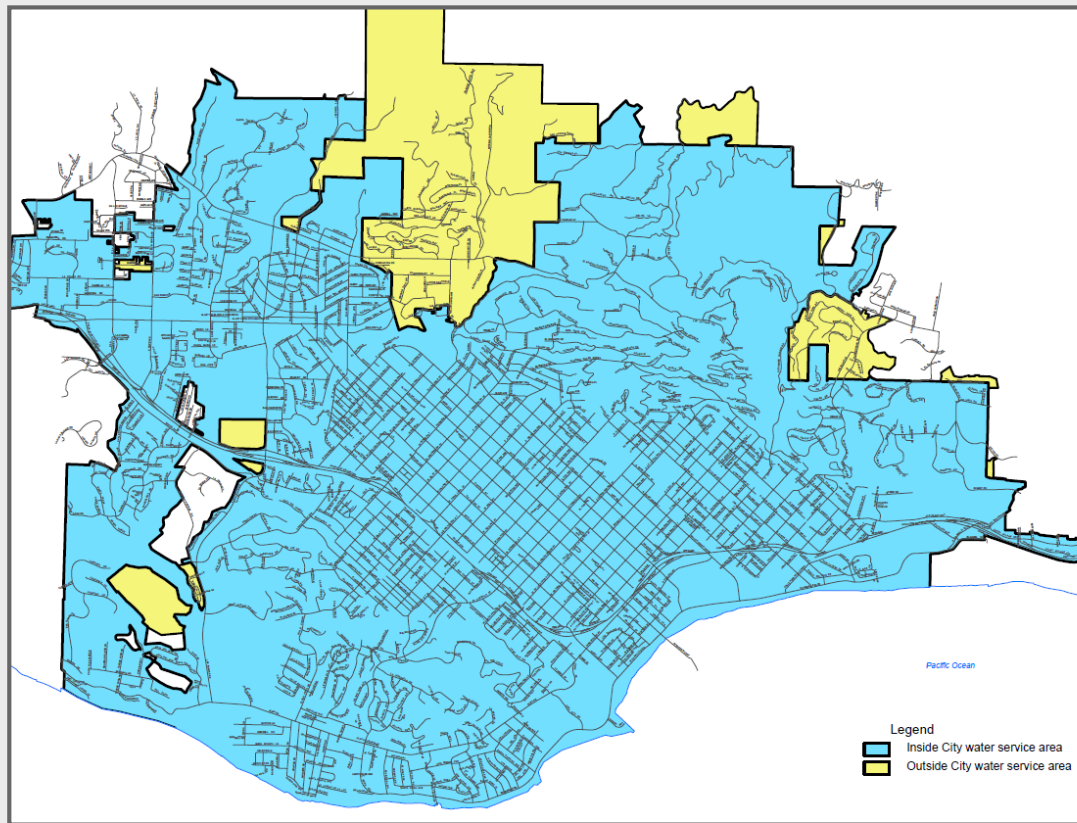
- California Constitution respects Council authority to create customer classes based on reasonable policy choices
  - Council may create different customer classes based upon cost-of-service and other administrative considerations
  - Council policy determines customer classes and tiers
    - *Prop 218 requires cost-of-service analysis*

## BWA Analysis

- Consider three approaches to defining customer classes
  - All would require confirmation through a cost-of-service analysis to meet Prop 218 requirements
1. Out-of-City Customer Class
  2. Pumped Versus Non-Pumped Water Service Areas
  3. Service Area Average

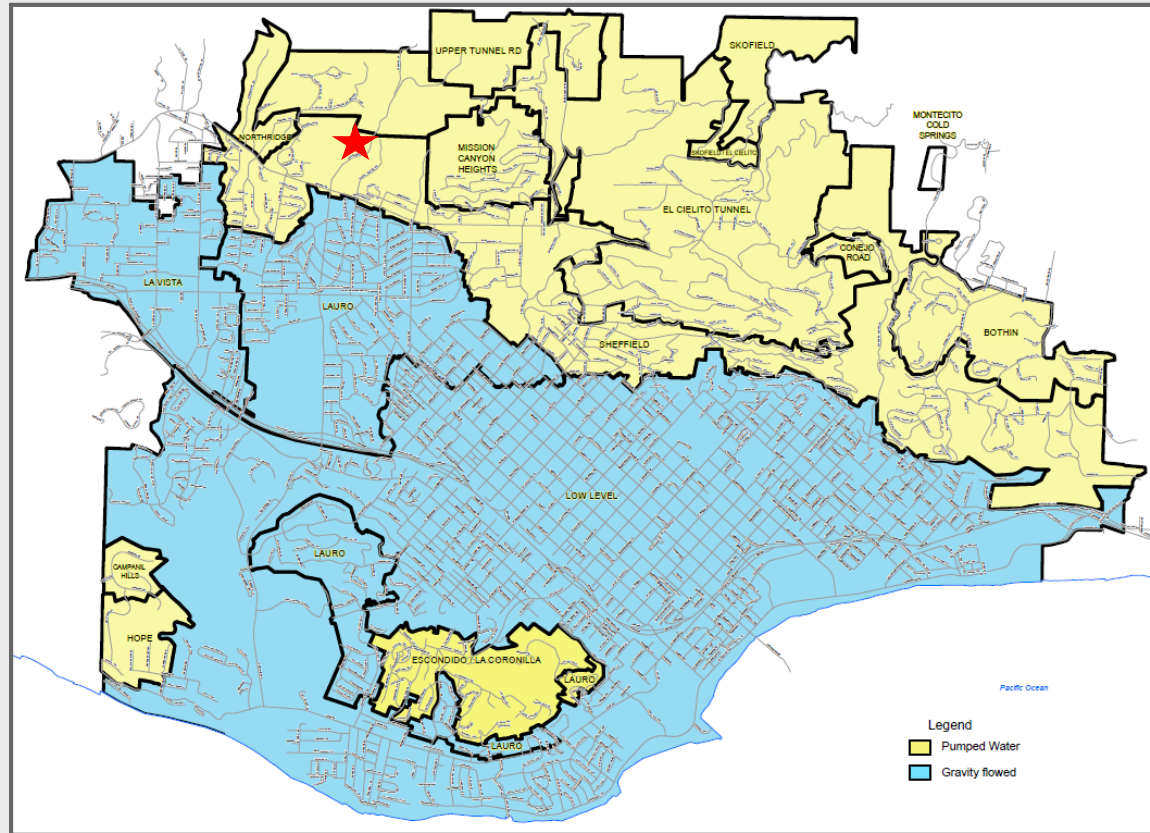
## Approach 1: Out-of-City Class

- Re-evaluate the rate structure based on costs to serve parcels located outside of City limits
- May or may not confirm previous rates for out-of-City customers



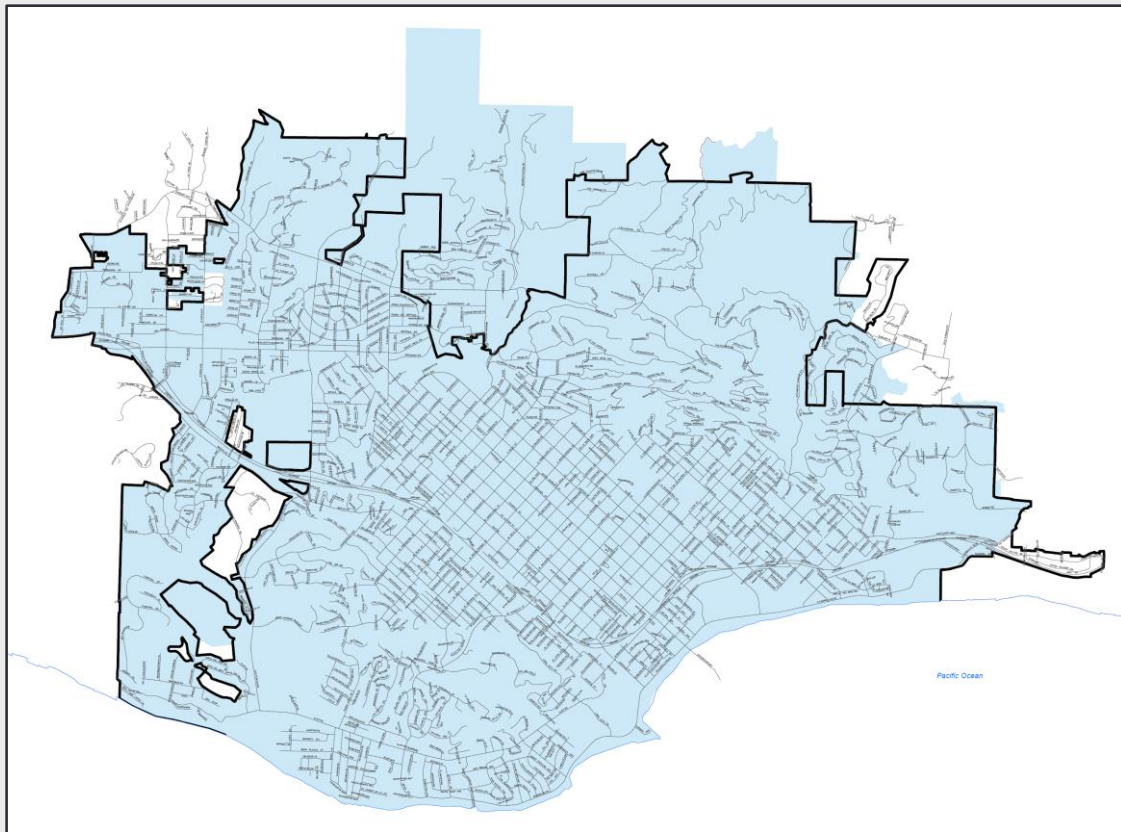
## Approach 2: Pumped and Non-Pumped Areas

- 1 year to study and develop rates
- No estimates at this time for impacts to monthly bills and rates



## Approach 3: Service Area Average

- Cost of service allocated over entire service area
- Customers outside the City pay the same applicable rate as inside the City



## Water Commission Recommendation and Comments

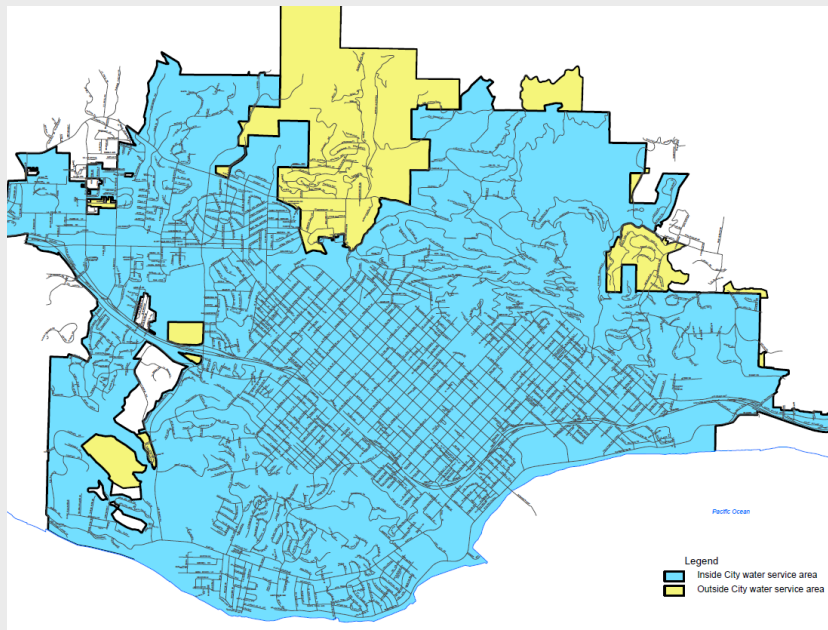
- Thursday, April 20, 2017
- Recommended that Council continue to have an out-of-City customer class.
  - Passed 3-1
- Discussed the possibility of developing and presenting two rate structures in June
  - Potential for increased consultant costs and delayed rate adoption
- The customer class defined by receiving pumped and non-pumped water was not recommended for further analysis and discussion

## Next Steps

- Council policy direction on customer classes
- BWA rate development and cost-of-service analysis for customer classes
- Introduce proposed rates and request direction to mail rate notices in June



## Service Area Map



## Pump/Non-Pump Map

